Information

European Investment Bank

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The European Investment Bank - its mission under the Treaty of Rome

In the twenty years after the signing of the Treaty of Rome on March 25 1957, which established the European Economic Community, the European Investment Bank, created under the same treaty, has developed to a degree which the Community's founding fathers could scarcely have anticipated. In the last three years alone its financing operations have exceeded 3 250 *million units of account; geographically its activities have* spread from the original six Member Countries to the nine and, under different association or cooperation agreements involving development finance, to more than 60 other countries, most of them in the so-called «Third World».

It is perhaps an opportune moment to reflect on the Bank's mission under the Treaty of Rome. *This article reviews the reasons for the Bank's existence,* what it tries to do, how it does it and where it fits into the Community picture. It does not purport to be exhaustive, but rather a brief character study of the EIB.

During the 1950s, when the Member States that had already created the European Coal and Steel Community were thinking through the pros and cons of going on to create a comprehensive Common Market, they had various and differing concerns about the likely impact it might have on their national economies. Some thought primarily about their agriculture, others about their industry. Basically they had three worries:

— the first was that if the Common Market really did result in encouraging growth, as it has, growth would be unbalanced: those regions that had not so far industrialised, the South of Italy for example, would *find it even harder to do so; those* regions that suffered from industrial decline would fall still further behind;

— the second worry was that although a larger market would open up opportunities for new techniques that could not flourish on a national scale, creating a Common Market — which meant dismantling tariff protection — would at the same time expose existing industries to the cold blast of competition (which, of course, was part of the object) and increase the pressure on them to modernise or convert;

— a third concern was that to link national economies more closely *would require the improvement of* communications across frontiers and would stimulate a demand for common facilities.

To tackle these problems would in each case call for substantial additional investment and create the problem of its financing.

The notion therefore developed that it would be essential to have some *mechanism to facilitate the mobilisa-*tion and transfer of capital from the

richer to the poorer regions within the Community and to bring capital into the Community from the outside.

The further notion, which is of basic importance, was that capital should be raised in the markets, not come from budgets, and should, moreover, be on-lent according to sound economic, financial and technical criteria. The decision was therefore taken to create a project-financing bank, capable of financing the bulk of its loans out of the proceeds of borrowings. It was to work on a non-profit-making basis and cooperate closely with the banking system on the lending side, since its function would be to provide complementary financing and not to displace existing sources of capital. The bank's investment priorities were moreover defined not in terms of individual sectors, as had been the case with the Coal and Steel Community, but according to the contribution that each project financed would make to the development of the poorer regions, to modernisation and conversion, or to economic objectives of common interest to two or more Member States, or the Community as a whole.

The decision to establish the European Investment Bank was thus an integral part of the decision to establish the European Economic Community itself, which is why the Bank's Statute forms part of the Treaty of Rome. The investment objectives that the Bank should observe, as outlined above, were also spelled out in Article 130 of the treaty.

Although created by the same treaty, the Bank was given a legal identity distinct from that of the EEC itself. It was made administratively and financially autonomous in order that it could exercise an independent banking judgement in the selection of the investment projects to be supported and in the determination of the conditions of its finance.

The Bank has a three-tier administrative structure. At the summit is the Board of Governors, whose members are Government Ministers from each of the nine Member States, usually the Minister responsible for finance. The Governors lay down general directives on credit policy; they must approve the balance sheet and annual report and one of their responsibilities — which has been of considerable importance for the Bank's development — is to authorise lending to finance projects outside the Community. The Board generally meets once a year but can be asked to meet at any other time.

Next comes the Board of Directors consisting of 18 Directors (17 nominated by the nine Member States [1] and 1 by the Commission of the European Communities) and 10 Alternates (9 nominated by the Member States, 1 by the Commission). The Alternates may take part in meetings but have no vote unless they replace an absent Director. Members are typically heads of public credit institutions or senior officials from finance, economic or industry ministries. They are appointed by the Board of Governors for terms of five years.

The Directors meet on average every six to eight weeks under the chairmanship of the President of the Bank. They are responsible for ensuring that the Bank is managed in accordance with the provisions of the Treaty of Rome and with the general directives laid down by the Board of Governors. They alone can take decisions in respect of granting loans or guarantees, raising loans and fixing interest rates.

While decisions to borrow and lend are taken by the Directors, they act only on proposals by the Management Committee. This consists of the President of the Bank, presently Mr. Yves Le Portz, and four Vice-Presidents, presently Mr. Horst-Otto Steffe, Sir Raymond Bell, Mr. Giorgio Bombassei de Vettor and Mr. Maurits Esselens, who are appointed for six-year terms by the Board of Governors on a proposal from the Board of Directors.

The Management Committee is the full-time «motor» of the Bank, controlling all day-to-day operations. The point that the Board of Directors acts on proposals by the Committee is significant because it means that recommendations to make loans come up and are not handed down. This is an important distinction. The Board of Directors could refuse to approve a loan proposal. They can, of course, modify a proposal that is put to them or ask the Management Committee to reconsider one or other aspect of their proposal, but loans are not imposed on the Bank against the judgement of the Management Committee, and the Management Committee in turn requires a full appraisal from the staff before coming to its own decision whether or not to recommend a loan to the Board of Directors.

Balancing autonomy and responsiveness

The structure of the EIB's administration is designed to provide operational autonomy within the terms of a general mandate. The Bank is an institution, not an instrument, but it is an institution within the Community. This means there is in practice a continual balancing between autonomy and what may be called «responsiveness», that is, assuring that the Bank's actions are not simply consistent with Community policies concerning the fields in which the Bank operates but are positively in support of them.

Responsiveness operates at a number of different levels, some formal and, perhaps more important, those that are informal. At the formal level, it has already been mentioned that one of the members of the Board of Directors is nominated by the Commission. He is therefore in a position to explain to his fellow Directors the Commission's viewpoint on any subject under discussion. Secondly every loan demand is submitted to the Commission for an opinion as to whether Bank financing is considered consistent with Community policy (this procedure, like all other stages of loan appraisal, is naturally covered by strict rules of professional secrecy). If that opinion were negative, the loan could be approved only by a unanimous vote of the Board of Directors, the Commission-nominated Director of course abstaining. Less formally, there are virtually daily staff contacts with opposite numbers in the different Directorates-General of the Commission. From time to time, those members of the Commission, including its

(1) Germany, France, Italy and the United Kingdom each nominate three Directors and two Alternates; Belgium, Denmark, Ireland, Luxembourg and the Netherlands each nominate one Director; one Alternate is nominated by common accord of the Benelux countries.

President, who are particularly interested in the Bank's activities meet with the Management Committee to review current and prospective developments of common concern.

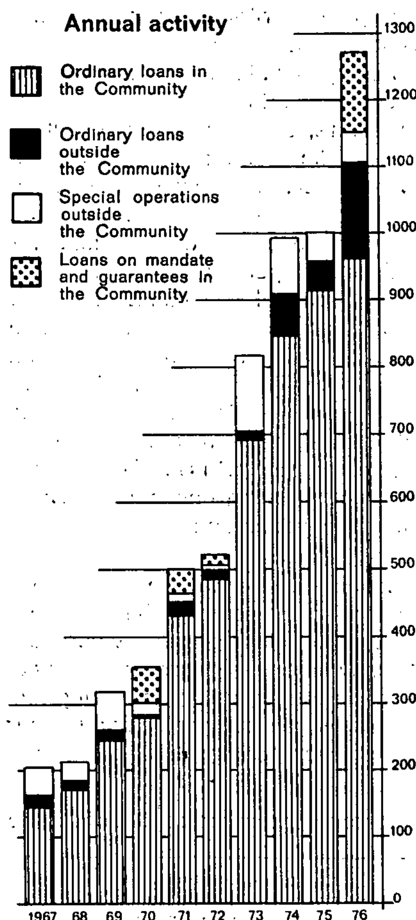
Keeping in harmony, whether formally or informally, is essential if only because what may loosely be called Community policy is not static. Lending in support of regional development was mentioned earlier as being one of the Bank's objectives: it is in fact by far the first priority and to date about three-quarters of the 6 300 million u.a. provided by the Bank within the Community has gone to investments in less-favoured regions. But the Bank is today no longer alone in providing finance for regional development projects; it has close links with the Community's Regional Development Fund (financed from budgetary resources furnished by the Member States) and is consequently involved in discussions concerning the future of the Fund and how its actions and those of the Bank might interweave and reinforce one another.

A most striking evolution in Community policy as it concerns the Bank has been with respect to the other priority referred to as supporting projects of common interest.

Under this heading finance has been provided on many occasions in the past for improved road and rail communications between Member Countries. The Channel Tunnel, if a decision to resume work were ever taken, would fit very well in this context.

Today, however, the majority of projects which the Bank helps to finance on grounds of common interest concern energy. Since the oil crisis, the Community has striven to reduce its dependence on imported energy and diversify the sources of its supplies; the EIB's response has been to step up its financing in support of Community energy policy. Out of a total of 1 835 million u.a. provided by the EIB for energy projects — principally the construction of nuclear power stations, the development of European (mainly North Sea) oil and gas fields and the laying of a network of gas pipelines throughout the Community — more than 75% has been made available since the beginning of 1973.

Of course, the distinction as to whether a project serves a common interest or regional development is not always clear-cut. A cross-frontier motorway that improves communications between Member Countries may also open up access to regions which were formerly isolated and for this reason lagging behind in their economic development. Many energy projects which have improved the Community's supply position have at the same time laid down part of the essential infrastructure needed to support industrial growth in less-advanced regions.



Yet while the Commission or the Council of Ministers, or the European Parliament, may look to the Bank to provide finance in support of Community policies, the decision to lend for any individual project — indeed to lend at all — is taken solely by the responsible organs of the Bank itself.

What are these loan decisions based on? That is, what are the Bank's lending policies? First of all, under the terms of its Statute, the Bank lends only for projects that are productive, either directly — they increase productive capacity or productivity — or indirectly — they improve or increase capacity in transport, telecommunications and notably, as already indicated, energy supplies, all judged from the point of view of their impact on economic growth. Each project is subjected to an appraisal of its viability, from a commercial, financial, economic and technical point of view, and of its contribution to the priority objectives of development in less favoured regions and support of projects of common interest. The promoter's financial position and managerial capacity are similarly appraised, for the Bank is after both sound loans and sound projects and regards them as inseparable.

Since the EIB is intended as a complementary source of finance — co-operating with the banking system, and not in competition with it — loans are deliberately limited to not more than about 50% of the fixed asset cost of any given project. There is a further ceiling in that individual loans are normally limited to the equivalent of about 80 million u.a., although for very large projects of community interest mounted by several promoters, two or more loans totalling a larger sum could be granted.

For practical reasons, the Bank has set a lower limit of 1 million u.a. per loan, although it prefers not to go much below 2 million u.a. To deal directly with the small and medium investor would call for appreciably more staff than would be considered economical and even then the problem would remain that the smaller the project, the more critically local knowledge plays a part in reaching a valid assessment of its viability and of the promoter's creditworthiness.

Nonetheless, the balanced development of a region's economy demands that support should be given to small and medium-sized ventures. They play a particularly important role as they tend to create substantial employment in relation to the capital outlay involved and their very diversity widens the spread of economic development.

To reach the smaller investors the Bank provides what are known as «global loans». These are a sort of wholesale-retail operation, in which the EIB makes a loan to an intermediary financial institution within a Member Country, which then

finances out of the proceeds a series of smaller loans to its own clients, in accordance with the EIB's own criteria and with the Bank's agreement in each case.

Whether a project is large or small, the Bank puts equal emphasis on financing only sound, viable investments. The appraisal of loan applications is thorough and designed to ensure this. But since perfect foresight is a commodity in short supply, the EIB's Statute lays down that when a loan is made to any body other than a Member State, the **Bank must receive a guarantee from** the State in whose territory the project is being carried out, or other adequate guarantees, which could, for example, be given by a public authority, major bank or industrial or financial group with first-class credit standing, associated with the project.

The Bank does not lend on the basis of country-by-country allocations, although it follows that the Bank's operations tend to be concentrated in those countries with considerable regional development problems — notably Ireland, Italy, the United Kingdom. Last year, for example, over three-quarters of the 1 086 million u.a. provided by the Bank within the Community went to finance investments in these three countries.

The projects which the EIB has helped to finance, through nearly **550 individual loans and almost 600** allocations from 43 global loans, cover practically every sector of industry and the main sectors of economic infrastructure, in which the Bank classifies energy, transport and telecommunications. Not surprisingly the recession has hit the demand for loans from industrial investors but last year they began to pick up again and accounted for about 27% of lending within the Community.

Operations outside the Community

The EIB's Statute allows the Bank to lend only for projects within the European territories of the Member States, unless the Board of Governors, by unanimous decision, on a recommendation from the Board of Directors, uses its power to authorise lending for projects outside the Community. This power has in practice been used in two ways. First, there have been authorisations for individual operations judged to be of exceptional Community interest: the financing of a gas pipeline through Austria, bringing Russian gas to the EEC transmission network, and of installations in the Ekofisk oilfield in the Norwegian sector of the North Sea (most of the production being destined for Community consumption).

Secondly, there have been authorisations for lending within the context of development aid, where the Community has agreements with outside States, usually covering five years, which provide, among other things, for lending up to defined limits by the EIB from its own resources and according to its normal procedures. The interest rates on loans under these agreements are often subsidised from budgetary sources, provided by the Member States or through the Community budget.

The best-known of the current agreements is no doubt the Lomé Convention between the Community and some 50 developing countries in Africa, the Caribbean and the Pacific. The Lomé Convention provides for Bank lending totalling 390 million u.a. up to March 1980, with priority to industry, mining and tourism.

Bank lending from its own funds is also provided for in agreements negotiated with many countries in and around the Mediterranean basin: Greece and Turkey, both linked to the Community by association agreements; Portugal; the Maghreb countries (Tunisia, Algeria and Morocco) and Malta; the Mashrek countries (Egypt, Jordan, Lebanon and Syria) and Israel. The Bank has also been authorised to extend its financing activities to Yugoslavia for projects which are of common interest to the Community and this country.

The maximum amount of lending outside the Community in the period 1976/1980-81, under all such agreements, is fixed at about 1 550 million u.a., some part of which may remain to be committed in subsequent years.

Statement of subscriptions to the capital of the Bank since 1958

	Initial subscription			Decision of Board of Governors of 26 April 1971		Enlargement of the Community (1 January 1973)			Decision of Board of Governors of 10 July 1975	
	Breakdown according to Member States (%)	Subscribed capital (million u.a.)	Paid-up capital (million u.a.)	Subscribed capital (million u.a.)	Paid-up capital (million u.a.)	Breakdown according to Member States (rounded %)	Subscribed capital (million u.a.)	Paid-up capital (million u.a.)	Subscribed capital (million u.a.)	Called capital (paid up and due to be paid up)* (million u.a.)
Germany	30.0	300.0	75.0	450.0	90.0	22.22	450.0	90.0	787.5	123.75
France	30.0	300.0	75.0	450.0	90.0	22.22	450.0	90.0	787.5	123.75
United Kingdom	—	—	—	—	—	22.22	450.0	90.0	787.5	123.75
Italy	24.0	240.0	60.0	360.0	72.0	17.78	360.0	72.0	630.0	99.0
Belgium	8.65	86.5	21.625	129.75	25.95	5.85	118.5	23.7	207.375	32.5875
Netherlands	7.15	71.5	17.875	107.25	21.45	5.85	118.5	23.7	207.375	32.5875
Denmark	—	—	—	—	—	2.96	60.0	12.0	105.0	16.5
Ireland	—	—	—	—	—	0.74	15.0	3.0	26.25	4.125
Luxembourg	0.2	2.0	0.5	3.0	0.6	0.15	3.0	0.6	5.25	0.825
Total	100.0	1 000.0	250.0	1 500.0	300.0	100.0	2 025.0	405.0	3 543.750	556.875

* When deciding on 10 July 1975 to raise the Bank's capital from 2 025 million to 3 543.75 million units of account, the Board of Governors ruled that Member States should pay in 10% of their share of the increase, or a total equivalent of 151.875 million units of account, in eight half-yearly instalments falling due on 30 April and 31 October 1976 - 1979. — The Board of Directors may require payment of the uncalled capital to such extent as may be needed to meet the Bank's obligations in respect of its borrowings.

In setting a ceiling on the total funds which it was prepared to authorize the Bank to lend in these countries outside the Community, the Board of Governors insisted that lending inside the Community should be at least maintained in real terms and if possible expanded.

In practice annual new commitments outside the Community are likely to represent at their peak somewhere about a fifth of total operations financed from the Bank's own resources. In other words, although — compared to the past — lending outside the Community will take on significantly increased importance in absolute terms, the Bank will remain very much a European Investment Bank.

A further point of some importance is that lending by the Bank from its own resources outside the Community commonly forms part of a package of different types of financial aid provided by the Community, including grants and special loans on very soft conditions.

Given the availability of these other Community resources, which are more suited to projects of a social nature and/or showing an indirect and long-term return, the Bank's role, in accordance with its Statute, is to concentrate its loan operations in favour of investments promising a satisfactory and assured rate of return, in directly productive sectors and economic infrastructure. It has been, and expects to be, highly selective in the projects it finances.

For the sake of completeness but without going into details, which have been covered in a previous article in EIB-Information ([1]), it should be mentioned that the Bank does and will continue to act in an agency role in administering some budgetary funds for project financing outside the Community on very favourable financial conditions. These operations are accounted for separately in EIB financial statements under what is called the Special Section, established for the purpose. Because the Bank's own funds are not involved, these operations are at no risk to the Bank and have no influence on its borrowing activities in the capital markets.

Financial structure

The financial structure given to the EIB is designed in accordance with the notion of autonomy stressed earlier. The capital was initially subscribed by the six original members and, since 1973, by the current nine Member States. The Board of Governors can increase the subscribed capital at any time and fix the percentage to be paid in. There have been three increases, in 1971, in 1973, when Denmark, Ireland and the United Kingdom joined, and in July 1975 (see table on page 4).

The latest increase raised the Bank's subscribed capital by 75% from 2 025 million u.a. to 3 543.75 million u.a. The paid-in capital which stood at 405 million u.a. before this increase is being raised to 556.875 million u.a.

The bulk of the Bank's lending is financed from borrowings. The strong capital base outlined above, the fact that the shareholders of the European Investment Bank are the nine Member States and that the EIB has a solid portfolio of lending in all sectors, with impeccable security, all combine to give the Bank its first-class standing on the world's financial markets.

In the last three years alone it has raised more than 2 400 million u.a. through public and private bond issues, mostly on the international markets and on national markets of certain countries outside the Community.

Outstanding borrowings totalled, at end 1976, 4 723 million u.a., denominated in 12 currencies, the principal being US $ (about 43%), DM (21%), and Swiss Francs (9%).

A deliberate effort is being made to broaden the market for the Bank's borrowings, as recent issues on the Japanese, Asian dollar and Austrian markets bear witness.

As the EIB, by Statute, works on a non-profit-making basis, its own lending rates (see page 8) closely reflect its borrowing costs. The margin added is such as to cover the Bank's operating expenses, which are kept low, and to contribute to a prudent level of reserves.

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The world stage now is very different from that of 1957 but the Treaty of Rome's original concept of the Bank — as a body helping to achieve a balanced and steady development of the Common Market — is as relevant today as ever, indeed more so within the Community of nine, whose fusion calls for yet larger resources to be directed into reducing disparities in regional development and also into the financing of facilities of common interest.

While not envisaged when the treaty was drawn up, the other role which the Bank has had since 1963, of helping to put into practical effect the Community's political will to give development aid to third countries, has also become more important.

No complacent forecasts can be made about the next 20 years. All that is sure is that the Bank will face even more challenging tasks than in the past.

Nevertheless, it can be said with some confidence that the European Investment Bank has firmly established itself at the crossroads of the world's capital markets and is well-placed to direct an important flow of funds into priority investments in the EEC and in other countries which are linked to the Community.

([1]) See EIB-Information N° 4, published February 1976.

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2, Place de Metz — Boite postale 2005
Luxembourg
tel. 43 50 11 — telex 3530 bankeu lu

Department for Italy:
38 Via Sardegna, 00187 Rome
tel.: 48 36 51 — telex 62130 bankeuro

Representative Office in Brussels:
60 Rue Royale, Bte 1
B-1000 Brussels
tel.: 5134000 — telex 21721 Bankeu b

The EIB and the Community's Mediterranean Policy

During the last 15 months the European Economic Community has signed agreements with 12 countries ([1]) in the Mediterranean basin which will involve the expansion of trade, the strengthening of industrial and technical cooperation and the provision by the Community of 1 255 million units of account ([1]) in different forms of development finance, to be made available over approximately the next five years.
The 12 embrace the countries of the Maghreb (Algeria, Morocco and Tunisia), four Mashrek countries (Syria, Jordan, Egypt and Lebanon), Malta, Israel and Yugoslavia and two countries — Greece and Portugal — which have already received Community financial aid, the former under the terms of its association agreement with the EEC, which came into effect in 1962, the latter via an offer of «emergency aid» which the Community made in 1975 to help recovery of the Portuguese economy.

Already negotiated but still to be signed is a third Financial Protocol with Turkey ([1]), which has been associated to the Community since 1964 and which has already received a substantial volume of development finance. An agreement with Cyprus is also foreseen. The funds which it is envisaged to make available for these two countries would amount to 340 million u.a.

Thus, added together, the sum of finance involved comes to 1 595 million u.a. with the breakdown as follows:

— 963 million u.a. in ordinary loans from the European Investment Bank's own resources, of which two thirds (648 million) would be provided with interest rebates paid from the Community budget;

— 382 million u.a. in special loans on very soft conditions, funded from the Community budget but mostly managed by the EIB;

— 250 million u.a. in Community grant aid, part of which — roughly 100 million u.a. — can be used to pay interest rebates on EIB loans.

The fact that EEC Member States have been prepared to assume such new aid commitments in a period when they have been faced with severe economic problems is an indication of the priority attached to what has become known as the Community's «Mediterranean Policy».

As can be seen, the great majority of the development finance is to be made available by and through the European Investment Bank. This article traces very briefly the evolution of this policy and of the role which the Bank has played and will be playing over the coming years in the Mediterranean basin.

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Meeting point of Europe, Africa and Asia, the Mediterranean is bordered by many different peoples whose histories, culture and trade are intertwined.

Two Mediterranean countries, France and Italy, are EEC Members but the Community as a whole sees the development of relations with its southern neighbours as being of natural importance.

In terms of trade, for example, 20% of the EEC's total exports go to the 14 countries mentioned earlier and to Spain, making a market for Community industry roughly equivalent in importance to those of the United States, Japan and Russia combined. Many of the Mediterranean countries supply the Europe of nine with part of its raw materials and energy requirements and indeed labour; even in 1975, in full recession, it was calculated that more than 3 million immigrants from the Mediterranean basin were employed in the EEC, i.e. about one in every 30 workers.

A greater access for their products to the close and relatively rich Community market of 262 million people is crucial to the economies of most of the Mediterranean countries; the savings repatriated by immigrant workers, the possibilities of technical and industrial cooperation with Community firms are all important factors influencing their development.

Given this interdependence, there is a mutual and vital interest in seeing a stable, balanced progress of this region.

The Community's commitment to a comprehensive programme of cooperation in the Mediterranean basin began to take shape towards the end of 1972, an agreement to this effect having been taken by the EEC Heads of State and Governments at their summit meeting in Paris.

Back to the early 60s

Yet the roots of the engagement go back much further to the early 60s, to the signature of association agreements between the Community and GREECE (1961) and TURKEY (1963).

Different forms of development finance made available under Financial Protocols to these agreements have served very largely as the model for all that has since followed.

In Greece provision was made for the Bank to grant loans from its own resources totalling up to $ 125 million ([2]).

These were to be ordinary loans, i.e. essentially on the same terms and conditions as those granted within the Community, although the Member States which signed the Protocol made provision for 3% interest rebates to be granted, at the charge of their own budgets, on credit extended for certain types of infrastructure projects; the rebates were to be applied on loans totalling up to a maximum of two-thirds of the $ 125 million.

The ceilings were both reached, albeit after a seven-year «freeze» during which political events brought Community-Greece relations to a standstill.

In the case of Turkey, however, the Member States provided most of the finance from their own budgets. They entrusted the Bank with the management of the funds from selection and appraisal of projects through to final loan decisions and subsequent loan administration.

There were two Financial Protocols, the first of which came into effect in 1964, the second in 1973, which together made provision for 370 million u.a. ([3]) in loans on special

([1]) The third EEC-Turkey Financial Protocol was signed on 12 May bringing to 13 the number of Mediterranean countries receiving financial aid totalling 1 565 million u.a.

([2]) A detailed review of the EIB's financing operations in Greece under this protocol was included in issue n° 3 of the Information Bulletin published in November 1975.

([3]) A further 47 million u.a. was added under a supplementary protocol signed in June 1973 following enlargement of the Community; this protocol is still in the course of being ratified.

conditions — i.e. for very long terms, with extended grace periods, at low interest rates — of which only 6.3 million remains to be used. Under the second Protocol the Bank also provided 25 million u.a. in ordinary loans from its own resources.

The difference in the nature of the financial aid offered to the two countries reflected the different levels of development of their economies. A broad distinction continues in the new financial protocol signed with Greece in February this year and in the terms of the third protocol which has been negotiated with Turkey.

In Greece the aid to be provided will total 280 million u.a.: 225 million in the form of EIB ordinary loans, of which 150 million with 3% interest rebates, the remainder at the EIB's normal rates; 45 million u.a. in grant aid, the majority of this to be used to pay the interest rebates; a relatively small sum, 10 million u.a. set aside for loans on special conditions.

In Turkey, out of a total of 310 million u.a.; 220 million will be in the form of special loans on soft terms (40 years duration, with a 10-year grace period, at an interest rate of 2½%), with the remaining 90 million u.a. in EIB ordinary loans, with no interest rebate.

The aim of both Association Agreements and their relevant Financial Protocols is to strengthen economic relationships within the perspective of Greece and, eventually, Turkey joining the EEC as full members. Greece put forward its official application in 1975 and it is now being followed by PORTUGAL, which has also submitted a request for membership.

It could be argued that this country, with its long Atlantic seaboard, is not, geographically at least, truly Mediterranean but by history, culture and trade it may be so considered.

The central role which the EIB plays in putting into practical effect the Community's political will to assist Portugal began in October 1975 when the Council of the European Communities, after consultation with the Bank, offered «exceptional emergency aid» of 180 million u.a. to help the country at a time of particular economic difficulties.

This was to be provided in the form of 150 million u.a. in ordinary loans from the EIB's own resources, guaranteed by the Community, with 3% interest rebates — worth 30 million u.a. — to be charged to the Community budget; 118 million has already been lent for industrial and infrastructure projects.

The aim of the Bank's interventions is to support the Portuguese authorities in their efforts to re-establish a balanced climate favourable to both public and private investment.

To carry on from the emergency aid a Financial Protocol was signed in September last year and it follows broadly the same formula. There will be 200 million u.a. in ordinary loans from the EIB's own resources plus 30 million u.a. in grant aid which will be entirely available to cover 3% interest rebates on loans totalling 150 million u.a.

The negotiations with the three North African countries of the MAGHREB (ALGERIA, MOROCCO and TUNISIA) commenced in 1973 and agreements were signed in April last year. As they followed similar lines, discussions on development finance for the MASHREK countries of EGYPT, SYRIA and JORDAN were somewhat more rapid, beginning in the spring of 1976 and leading to signature of agreements in January this year. The accord with LEBANON was signed earlier this month.

For the Maghreb the financial aid to be made available will total 339 million u.a., of which roughly half (167 million) is to be in the form of EIB ordinary loans, generally with 2% interest rebates; 116 million u.a. will be in special loans for 40 years with 10 year grace periods at an interest rate of 1%. Grant aid will total 56 million u.a., of which part will be used for the payment of the interest rebates on EIB ordinary loans.

Under the Mashrek agreements the division of aid is broadly the same, although there will be fewer special loans and more grant aid, to take account of the somewhat lower stage of economic development of these countries.

The total volume of development finance is set at 300 million u.a., of which 165 million will be ordinary loans from the EIB, again with 2% interest rebates; there will be 27 million u.a. in special loans, on the same terms as those to be provided to the Maghreb countries, but grant aid will reach 108 million u.a., of which part will serve to pay interest rebates.

The agreements with the Maghreb and Mashrek countries were in fact preceded by an accord with MALTA, signed in March last year. The funds involved total 26 million u.a. — mostly EIB ordinary loans with interest rebates, but also loans

Community development finance provided for in new agreements with countries of the Mediterranean basin

	Total aid m u.a.	EIB loans m u.a.	Special loans m u.a. (²)	Grant aid m u.a.
Greece	280	225	10	45
Turkey	310	90	220	—
Portugal	230	200	—	30
Algeria	114	70	19	25
Morocco	130	56	58	16
Tunisia	95	41	39	15
Syria	60	34	7	19
Jordan	40	18	4	18
Egypt	170	93	14	63
Lebanon	30	20	2	8
Malta	26	16	5	5
Yugoslavia	50	50	—	—
Israel	30	30	—	—
Cyprus (¹)	30	20	4	6
Total	**1 595**	**963**	**382**	**250 (³)**

(¹) Agreement not yet negotiated.

(²) Under the terms of the agreements, these loans will be for 30-40 years, with grace periods between 8 and 10 years, at interest rates 1% to 2½%.

(³) A large part of this sum — estimated at 100 million u.a. — will be used to cover the interest rebates on EIB loans.

on special conditions and grant aid — which in relation to the size of the country may be considered as important support for its development.

The Community's Mediterranean Policy took further shape towards the end of last year when the EIB agreed to lending operations being extended to YUGOSLAVIA: 50 million u.a. in ordinary loans, i.e. at the Bank's *normal rates of interest*, will be provided for investments which are of common benefit to both this country and the Community.

In February this year an agreement was also signed with ISRAEL which provides for EIB ordinary loans totalling 30 million u.a.

The «mix» of development finance

As can be seen there are wide variations in the «mix» of development finance — that is the balance between ordinary loans with or without interest rebates, loans on special conditions or grant aid — corresponding to the different investment needs and economic situation in each country.

Taking the case of Egypt, for example, the finance to be provided in this country, which is confronted with severe economic problems, will total 170 million u.a., of which more than half will be EIB ordinary loans with interest rebates, and the remainder in the form of grant aid and special loans. The agreement with Israel, which has already a much higher level of industrial and agricultural development, makes no provision for interest rebates on the 30 million u.a. in loans from the EIB.

Given the different financing media available, *it is intended in all the* agreements that EIB ordinary loans will be concentrated primarily on productive investments, mainly in industry, mining and tourism; they may also be used to finance infrastructure projects directly related to production sectors, such as electricity production and transmission, roads and ports.

The normal security required by the EIB for operations on its own resources will be complemented by a global guarantee from the Community.

Special loans, paid from the Community budget, will be directed towards longer term infrastructure projects although, in the case of the Maghreb, Mashrek and Malta agreements, part of the funds may be used to finance contributions to risk capital. The EIB will manage all special loans in Turkey (as under the two previous financial protocols) and those provided in Greece and Malta; in the Maghreb and Mashrek countries management of these funds will be divided on a sectorial basis between the Bank and the Commission of the European Communities.

The Commission will handle the grant aid (minus the amounts foreseen to pay interest rebates) to finance pre-investment studies, technical cooperation and training.

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* *

Of all the Mediterranean countries only Albania and Libya and, for the present, also Spain are not included in the development finance «package» put together by the Community. However, Spain already has a commercial agreement with the EEC and has clearly declared its intention eventually to seek membership of the Community.

Subject to ratification by the Member States and the countries concerned, the first financing operations under the new agreements are foreseen for the beginning of next year. In the meantime contacts are being made and projects examined by the Bank to ensure a rapid start.

Although a modest contribution to the total development needs of the Mediterranean basin, when added to bilateral aid from Member Countries, the funds to be made available by the Community — principally through the European Investment Bank — represent an important effort by the Europe of nine to express solidarity with its southern neighbours and to help to create a vast zone of fruitful cooperation.

Interest rates

On 1st April 1977 the Board of Directors of the European Investment Bank fixed the following interest rates:

Loans disbursed in several currencies

up to 8 years	8¼%
over 8 years and up to 12 years	8⅞%
over 12 years	9⅛%

Loans disbursed in a single currency

Duration in years:	5	6	7	8	9	10	11	12	13-15	16-20
Swiss Francs										
5 to 8 years	5⅝%	5¾%	5⅞%	6%						
US dollars										
6 to 20 years		8¼%	8⅜%	8½%	9%	9⅛%	9¼%	9⅜%	9½%	9⅝%

A brochure entitled «Loans and Guarantees in the Member Countries of the European Economic Community» is available, free on request (see address on page 5), for those who would like more detailed information concerning *how the Bank operates and the terms of its finance.*

European Unit of Account

Below are the values in national currencies of the European Unit of Account used by the Bank, as at 31 March 1977; these rates are applied for the following quarter in preparing financial statements and operational statistics of the Bank (see Information Bulletin N° 4 for a more detailed description of the application by the EIB of this unit of account):

DM	2.67999	Bfrs	41.0721
£	0.652301	Lfrs	41.0721
Ffrs	5.57560	Dkr	6.56558
Lit	995.519	£ Ir	0.652301
Fl	2.79538	US $	1.12204

Statistics summarising Bank activities in terms of units of account have been based on several different conversion rates applied since 1958. This, coupled with the effects of price trends, would suggest prudence in interpreting the significance of figures which relate to operations extending over many years.